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NSC BRIEFING

3 April 1957

SOVIET ECONOMIC REORGANIZATION

- I. On 30 March, Soviet press finally spelled out Khrushchev's mid-February proposal that the USSR undertake a sweeping reorganization of its economic apparatus.
 - A. Proposed reorganization would eliminate specialized central Gov't industrial ministries, replace them with regional economic councils;
 1. Intention - "to combine centralized state management with a maximum development of the creative energies of the working masses."
 2. Proposal is now in discussion phase; to be acted on at the 7 May Supreme Soviet session.
 - B. Public reason for reorganization--Soviet economy has become too big and complex (200,000 state enterprises, 100,000 construction sites).
 - C. Actual reason - need to push USSR's industrial growth rate from present low 7% back up to planned 10-12%.
 - D. Author Khrushchev now appears optimistic about restoring high rates of growth, in contrast to apparent pessimism of '56 plenum.
 1. In mid-March speech at Rostov, he pointed out that although Western critics had said the "new lands" plan showed a crisis in Soviet agriculture, '56 crops had broken all records. He implied that, in the same way, West would interpret proposed industrial decentralization as another crisis for the Soviet system, but this program, too, would be successful.

DOCUMENT NO. 3
NO CHANGE IN CLASS. ☐
DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE:
AUTH: HR 70-2
DATE: 11-12-82
REVIEWER: 372044

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II. The new reorganization is most drastic since Five-Year Plans first introduced in 1928. Details still not spelled out, but, in general:

- A. New regional "economic councils" and territorial governments are to replace both central and republic ministries as basic authorities for administration of industry and construction.
- B. Central government planning and control units--such as the State Planning Commission, Molotov's State Control Ministry, and the Central Statistical Bureau--are to be strengthened and consolidated.
- C. No mention made of such central Gov't ministries as armaments and aviation--these very unlikely to be abolished.
- D. Map shows some areas mentioned by Khrushchev as examples of proposed regions, as well as a "region" (the Urals) criticized as being "too big" at present.
 - 1. Size of sample "regions" suggests there may eventually be well over 100.

III. What will this new reorganization mean?

- A. It may alleviate some of the specific problems described in the proposals.
 - 1. Reduce excessive-cross hauling of materials between regions: example--the import of castings to a city where similar castings are already being produced and exported.
 - 2. Cut down excessive vertical integration in individual plants: example--a truck plant fabricating everything from engine casting to horn buttons.

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3. Lower resistance to production of new designs.
4. Reduce general inefficiency and fragmentation in construction industry, by consolidation of many units in each region.

B. However, it may create problems equally bad:

1. Will bring problems of coordination between regions and of assuring supplies to deficit regions.
2. Can lead to economic "provincialism", including many of the same kinds of problems that might arise in international trade between 100 small countries.
3. Will have the confusion attendant to a duality of management responsibility: a plant will receive directives from both the State Planning Commission and a regional council.

IV. Conclusion: Reorganization means no change in fundamental central control of Soviet economy or in objectives of Soviet leadership.

- A. Does mean an eventually improved capability to withstand strategic attack (because of increased regional self-sufficiency).
- B. Will also mean a long period of initial confusion--example: a new set of channels must be found for almost every supply order written in the USSR--but eventually some possible improvement in efficiency.

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